

AU GRES, SIMS, WHITNEY FIRE
AND RESCUE AUTHORITY
Arenac County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Au Gres, Sims, Whitney Fire and Rescue Authority	County Arenac
Audit Date March 31, 2006	Opinion Date April 20, 2006	Date Accountant Report Submitted to State: April 20, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the **FINANCE** the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

April 20, 2006

To the Fire and Rescue Board
Au Gres, Sims, Whitney Fire and Rescue Authority
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Au Gres, Sims, Whitney Fire and Rescue Authority, Arenac County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Au Gres, Sims, Whitney Fire and Rescue Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Au Gres, Sims, Whitney Fire and Rescue Authority, Arenac County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Au Gres, Sims, Whitney Fire and Rescue Authority covers the Authority's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$363,349.07 for governmental activities. Total revenues were \$137,350.41. The net decrease in net assets of \$55,971.83 included a \$48,299.00 depreciation deduction.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Authority and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Authority in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Authority as a whole using accounting methods used by private companies. The statement of net assets includes all of the Authority's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

There are no fund financial statements as the Authority has only one fund.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

During the year, the department maintained the building and equipment we have.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority has only one fund. Please refer to the financial highlights section of this report for summary information or refer to the financial statement for more detailed information about the financial position and results of operations of our authority.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Authority invested \$0 in capital assets in the current fiscal year.

The Authority paid \$15,144.76 in principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

Future funding of the Authority is dependent on the financial support from and the financial stability of Au Gres, Sims, and Whitney Townships and the City of Au Gres.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide our investors and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Authority.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>186 359 19</u>
Total Current Assets	<u>186 359 19</u>
NON-CURRENT ASSETS:	
Capital Assets	737 847 00
Less: Accumulated Depreciation	<u>(491 279 00)</u>
Net Capital Assets	246 568 00
Contract receivable	<u>34 045 35</u>
Total Non-current Assets	<u>280 613 35</u>
TOTAL ASSETS	<u><u>466 972 54</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Deferred revenue	<u>34 045 35</u>
Total Current Liabilities	<u>34 045 35</u>
NON-CURRENT LIABILITIES:	
Note payable	<u>69 578 12</u>
Total Non-current Liabilities	<u>69 578 12</u>
Total Liabilities	<u>103 623 47</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	176 989 88
Unrestricted	<u>186 359 19</u>
Total Net Assets	<u>363 349 07</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>466 972 54</u></u>

The accompanying notes are an integral part of these financial statements.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Public safety	188 946 86	125 029 64	(63 917 22)
Interest on long-term debt	<u>4 375 38</u>	<u>-</u>	<u>(4 375 38)</u>
Total Governmental Activities	<u><u>193 322 24</u></u>	<u><u>125 029 64</u></u>	<u><u>(68 292 60)</u></u>
General Revenues:			
Interest			2 268 97
Miscellaneous			<u>10 051 80</u>
Total General Revenues			<u>12 320 77</u>
Change in net assets			(55 971 83)
Net assets, beginning of year			<u>419 320 90</u>
Net Assets, End of Year			<u><u>363 349 07</u></u>

The accompanying notes are an integral part of these financial statements.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND
March 31, 2006

	<u>Total (General)</u>
<u>Assets</u>	
Cash in bank	186 359 19
Contract receivable	<u>34 045 35</u>
Total Assets	<u><u>220 404 54</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Deferred revenue	<u>34 045 35</u>
Total liabilities	<u>34 045 35</u>
Fund equity:	
Fund balance:	
Unreserved:	
Undesignated	<u>186 359 19</u>
Total fund equity	<u>186 359 19</u>
Total Liabilities and Fund Equity	<u><u>220 404 54</u></u>

The accompanying notes are an integral part of these financial statements.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS

March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	186 359 19
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	737 847 00
Accumulated depreciation	(491 279 00)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Note payable	(69 578 12)
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>363 349 07</u>

The accompanying notes are an integral part of these financial statements.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
Year ended March 31, 2006

	<u>Total (General)</u>
Revenues:	
Township of Au Gres	37 192 70
Township of Sims	63 287 30
City of Au Gres	20 649 64
Charges for services	3 900 00
Interest	2 268 97
Miscellaneous	<u>10 051 80</u>
Total revenues	<u>137 350 41</u>
Expenditures:	
Public safety:	
Fire protection:	
Wages and payroll taxes	17 371 42
Supplies	4 934 10
Gas and oil	1 156 04
Telephone	959 08
Insurance	18 886 41
Utilities	6 751 50
Repairs and maintenance	5 678 28
Professional services	1 952 50
Building lease	79 509 94
Miscellaneous	3 448 59
Debt service	<u>19 520 14</u>
Total expenditures	<u>160 168 00</u>
Excess (deficiency) of revenues over expenditures	(22 817 59)
Fund balance, April 1	<u>209 176 78</u>
Fund Balance, March 31	<u><u>186 359 19</u></u>

The accompanying notes are an integral part of these financial statements.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND (22 817 59)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense (48 299 00)

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt 15 144 76

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (55 971 83)

The accompanying notes are an integral part of these financial statements.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Au Gres, Sims, Whitney Fire and Rescue Authority, Arenac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Authority contain all the Authority funds that are controlled by or dependent on the Authority's executive or legislative branches.

The reporting entity is the Au Gres, Sims, Whitney Fire and Rescue Authority. The Authority is governed by an elected Fire and Rescue Board. As required by generally accepted accounting principles, these financial statements present the Authority as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Authority's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Authority reports only one fund as follows:

- The General Fund is used to record the operations of the Authority which pertain to maintaining and operating the Authority. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Authority. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

The Authority does not levy any property taxes.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Authority as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	30 years
Vehicles and equipment	3-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Authority provides no post-employment benefits to past employees.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Fire and Rescue Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Fire and Rescue Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Fire and Rescue Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Fire and Rescue Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

The Fire and Rescue Board has designated two banks for the deposit of Authority funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Authority's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>186 359 19</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	143 905 68
Uninsured and Uncollateralized	<u>42 453 51</u>
Total Deposits	<u>186 359 19</u>

The Authority did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Authority's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Buildings and improvements	350 000 00	-	-	350 000 00
Vehicles and equipment	<u>387 847 00</u>	-	-	<u>387 847 00</u>
Total	737 847 00	-	-	737 847 00
Accumulated Depreciation	<u>(442 980 00)</u>	<u>(48 299 00)</u>	-	<u>(491 279 00)</u>
Net Capital Assets	<u>294 867 00</u>	<u>(48 299 00)</u>	-	<u>246 568 00</u>

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 5 – Changes in Long-Term Debt

The following is a summary of the changes in long-term debt.

	Balance 4/1/05	Additions	Deductions	Balance 3/31/06
Note Payable	<u>84 722 88</u>	<u>-</u>	<u>15 144 76</u>	<u>69 578 12</u>

Note 6 – Note Payable

During the fiscal year ended March 31, 2000, the Authority purchased a fire truck for \$205,174.00, which was delivered in the fiscal year ending March 31, 2001. The fire truck was financed in part by a seller financing loan through the Huron Community Bank in the amount of \$150,000.00. The loan is to be repaid in ten equal annual installments of \$19,520.14, including interest at 5.109%. As of March 31, 2006, the principal balance outstanding on the loan was \$69,578.12.

Note 7 – Fire Hall Lease

On January 10, 1997, the Authority leased a new fire hall from the City of Au Gres, effective February 1, 1997, for a period of ten years.

Provisions of the lease included:

1. The Authority is responsible for all maintenance and repairs.
2. The Authority is to maintain Fire and Casualty insurance coverage of at least \$275,000.00.
3. The Authority is to maintain adequate liability insurance.

Lease expense for the year ended March 31, 2006, was \$79,509.94. The lease was paid off during the fiscal year ended March 31, 2006.

Note 8 – Deferred Compensation Plan

The Authority does not have a deferred compensation plan.

Note 9 – Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 – Pension Plan

The Authority does not have a pension plan.

AU GRES, SIMS, WHITNEY FIRE AND RESCUE AUTHORITY
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Township of Au Gres	35 000 00	35 000 00	37 192 70	2 192 70
Township of Sims	60 500 00	60 500 00	63 287 30	2 787 30
City of Au Gres	20 500 00	20 500 00	20 649 64	149 64
Charges for services	3 900 00	3 900 00	3 900 00	-
Interest	400 00	400 00	2 268 97	1 868 97
Miscellaneous	-	-	10 051 80	10 051 80
Total revenues	<u>120 300 00</u>	<u>120 300 00</u>	<u>137 350 41</u>	<u>17 050 41</u>
Expenditures:				
Public safety:				
Fire protection:				
Wages and payroll taxes	19 000 00	19 024 42	17 371 42	(1 653 00)
Supplies	1 200 00	9 126 41	4 934 10	(4 192 31)
Gas and oil	1 200 00	1 200 00	1 156 04	(43 96)
Telephone	1 000 00	1 000 00	959 08	(40 92)
Insurance	18 300 00	19 639 41	18 886 41	(753 00)
Utilities	6 500 00	6 751 50	6 751 50	-
Repairs and maintenance	9 000 00	7 660 59	5 678 28	(1 982 31)
Professional services	2 700 00	2 424 08	1 952 50	(471 58)
Building lease	29 000 00	79 510 00	79 509 94	(06)
Miscellaneous	2 500 00	4 948 59	3 448 59	(1 500 00)
Capital outlay	10 375 00	-	-	-
Debt service	<u>19 525 00</u>	<u>19 525 00</u>	<u>19 520 14</u>	<u>(4 86)</u>
Total expenditures	<u>120 300 00</u>	<u>170 810 00</u>	<u>160 168 00</u>	<u>(10 642 00)</u>
Excess (deficiency) of revenues over expenditures	-	(50 510 00)	(22 817 59)	27 692 41
Fund balance, April 1	-	<u>50 510 00</u>	<u>209 176 78</u>	<u>158 666 78</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>186 359 19</u>	<u>186 359 19</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

April 20, 2006

To the Fire and Rescue Board
Au Gres, Sims, Whitney Fire and Rescue Authority
Arenac County, Michigan

We have audited the financial statements of the Au Gres, Sims, Whitney Fire and Rescue Authority for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Au Gres, Sims, Whitney Fire and Rescue Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Fire and Rescue Board
Au Gres, Sims, Whitney Fire and Rescue Authority
Arenac County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed no conditions that we would like to bring to your attention.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Authority's financial statements and this communication of these matters does not affect our report on the Authority's financial statements, dated March 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer : Cb. P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants